ANNUAL REPORT 2012

THE PUBLIC ACCOUNTANTS COUNCIL FOR THE PROVINCE OF ONTARIO / CONSEIL DES EXPERTS-COMPTABLES DE LA PROVINCE DE L'ONTARIO

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ABOUT THE COUNCIL

The Public Accountants Council for the Province of Ontario (the Council) is a corporation without share capital that was continued under the *Public Accounting Act, 2004*.

The purpose of the Council is to ensure that public accounting in Ontario is practised in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services.

Public accounting is the business of expressing independent assurance and certain other services in respect of financial statements and other financial information of enterprises where it can reasonably be expected that the services will be relied upon or used by a third party.

The Council is responsible for:

- developing and maintaining the standards that a Designated Body must meet in order to be authorized to license and govern the activities of its members as public accountants;
- determining which Designated Body meets the standards, when it meets them and whether it continues to meet the standards after it is authorized to license and govern the activities of its members as public accountants;
- overseeing the Designated Bodies in their capacity to license and to govern the activities of their members as public accountants; and
- maintaining public confidence in public accounting through the appropriate prosecution of offences under the *Public Accounting Act, 2004*.

The Designated Bodies named in the *Public Accounting Act, 2004* are the:

- Certified General Accountants Association of Ontario (CGAO)
- Certified Management Accountants of Ontario (CMAO)
- Institute of Chartered Accountants of Ontario (ICAO).

Upon the Council being satisfied that a Designated Body meets the Council's standards, the Council may provide written authorization to the Designated Body to license and govern its members as public accountants. A Designated Body that has received such authorization is an Authorized Designated Body.

As of December 11, 2012, being the date on which this Annual Report was approved by the Council, all the Designated Bodies have been approved as Authorized Designated Bodies.

THE COUNCIL STANDARDS

The Council's Standards were approved in their initial form on June 20, 2006, and were amended and restated as of July 11, 2012. They require a Designated Body that seeks to be authorized to license and govern the activities of its members as public accountants to meet certain minimum standards relating to its:

- education, examination and practical experience requirements;

- rules of professional conduct, mandatory practice inspections of public accountants, the use of generally accepted accounting principles and generally accepted auditing and assurance standards, discipline procedures, the issuing of new licences to former licensees, the issuing of licences to persons who are permitted to practise in other jurisdictions, and mandatory professional liability insurance; and

- governance standards respecting the licensing and governing of the activities of its members as public accountants.

The Council has also adopted Council Guidelines. These deal with aspects of the Council's Standards where it is in the public interest that the Authorized Designated Bodies have a consistent approach.

Council Standards and Guidelines are published on the Council's website, at www.pacont.org.

KEY ACTIVITIES OF THE COUNCIL

Key activities of the Council during its 2012 fiscal year (November 1, 2011 - October 31, 2012) and up to the date (December 11, 2012) when the Council approved this Annual Report were:

Oversight of the Assessment of Substantial Equivalence

The Council continued to monitor the progress of the independent evaluators (the Evaluation Team) retained by the Council to assist in the assessment of the substantial equivalence of the public accounting standards of the Designated Bodies. In this respect:

CGAO

As noted in previous annual reports of the Council, at its meeting of June 22, 2010, the Council accepted the *Final Report* of its Evaluation Team. And on this same day the CGAO became an Authorized Designated Body under the *Public Accounting Act, 2004*.

In this *Final Report*, the Evaluation Team expressed the opinion that the CGAO public accounting standards had achieved substantial equivalence to the Council Standards in respect of those members of the CGAO who had completed the 51 credit-hour preparation, and could therefore provably develop a public accountant with the competencies comparable to those of a public accountant produced by the benchmark program underlying the Council Standards. At the same time, in view of the fact that the required GGAO public accounting examinations would of necessity be conducted for the first time, it was noted that certain review procedures would need to be implemented once candidates were actively involved in completing the licensure program.

The pace of implementation monitoring for the examinations in question is driven by the numbers of CGAO candidates that present themselves. To date, the candidates forthcoming have been concentrated among those CGAO members who have been able to avail themselves of the provisions in Council Guideline 2010-6, which makes special allowance for a member of a newly authorized designated body who has substantial involvement in public accounting but does not meet all the requirements of Council Standards, particularly in regard to the education component.[1] As of December 11, 2012, there were 33 CGAO candidates who had qualified as LPAs through the above route. The monitoring of the examination process for candidates regularly qualifying under the 51 credit-hour preparation provisions remains pending.

[1] Further detail on this Guideline is available in the Council Report for 2010 – under "Bridging Program for Certain Potential Licensees".

As regards the non-credit-hour program for CGAO candidates, the *Final Report* also indicated that the judgment of substantial equivalence was expected to be extended to the CGAO's own courses when the Advanced External Audit course and examination (AU2) were satisfactorily completed. The Evaluation Team has also concluded that there are no substantial barriers to its completion. The delivery of the AU2 examination will be ready for monitoring once a cohort of students completes the AU2 course.

CMAO

The Council noted in its Report for 2011 that in recent months important progress regarding the Evaluation Team's assessment of the CMAO had been made across all areas, and that a completed report on substantial equivalence from the Team to the Council should be available soon. And on January 4, 2012, the Evaluation Team submitted to Council its *Report on the Assessment of Substantial Equivalence: CMAO (Final Report)*.

In this *Final Report*, the Evaluation Team expressed the opinion that the CMAO public accounting standards were now substantially equivalent to the Council Standards in respect of those members of the CMAO who had completed the required 51 credit-hour preparation, and could provably develop a public accountant with the competencies that are comparable to a public accountant produced by the benchmark program underlying the Council Standards. At the same time, it was made clear that since the required CMAO public accounting examinations would of necessity be conducted for the first time, certain review procedures in relation to those examinations and the processes leading up to them would need to be assessed at a later stage, once candidates were actively involved in completing the licensure program.

At its meeting of January 24, 2012, the Council accepted the *Final Report*. And on that same day the CMAO became an Authorized Designated Body under the *Public Accounting Act, 2004*.

In the months following, the Evaluation Team has been working with CMAO staff in order to implement the post-approval monitoring that is required, pending the arrival of a student cohort.

Monitoring and Oversight of Authorized Designated Bodies

The Council is required under the *Public Accounting Act, 2004* to conduct reviews of the operations of each Authorized Designated Body at least once every three years and to report on them to the Minister. The purpose of such a review is to:

(i) determine whether the Authorized Designated Body continues to meet the Council Standards;

(ii) determine whether the Authorized Designated Body is complying with the Council Standards;

(iii) oversee the Authorized Designated Body in its capacity to license and govern the activities of its members as public accountants; and

(iv) determine whether the purpose and objects of the Council are being met.

The Council has implemented procedures to fulfill its obligation under the Act.

The report on the first triennial review for the ICAO (for the three years ended October 2009) was accepted by the Council in January 2011, and the second such review for the ICAO is scheduled to begin upon completion of the reporting for the year that ended October 2012. The first triennial review for the CGAO is scheduled to begin upon completion of the reporting for the year ending in October 2013.

Further to this, the Council has determined that there is merit in conducting, on a reduced scale from the triennial review exercise, monitoring and reporting reviews of the standards-related activities of Authorized Designated Bodies for those years when a triennial review is not required. Accordingly, a first annual review report for the

ICAO, for the year ended October 2008, was accepted by the Council in December 2009, and subsequent annual reviews were accepted in September 2011 and September 2012. This latter review, for the year ended October 2011, indicated that there was no evidence that the ICAO was not in compliance with the standards for Authorized Designated Bodies as set out in the *Public Accounting Act, 2004*. For the CGAO, a first annual review, for the year ended October 2011, was accepted by the Council in June 2012. This review also indicated that there was no evidence that the CGAO was not in compliance with the standards for Authorized Designated Bodies as set out in the *Public Accounting Act, 2004*.

In addition to the above triennial and annual reviews for Authorized Designated Bodies, the Council is authorized to conduct special reviews of a Designated Body if it concludes that it is in the public interest to do so. One such review was accepted by the Council in January 2011.

All review reports, once accepted by the Council, are published on its website.

Amendment to Council Guideline No. 2007-3

Council Guideline 2007-3 establishes minimum criteria to be considered by the licensing board of an Authorized Designated Body in determining, pursuant to Section 8 of the Council's Standards, whether an applicant for renewal of a licence has been practising public accounting in a substantive way. On June 26, 2012, the Council agreed to an amendment that would entitle an applicant to receive credit for hours documented in providing certain public accounting services, even though such documented hours were not in fact charged to clients.

As noted earlier, all Council Guidelines, including this amended Guideline, are available on the Council website.

Decision via the *Agreement on Internal Trade* (AIT) and Consequential Revisions to Council Standards

As a consequence of the January 13, 2012 ruling of the AIT Labour Mobility Panel that disallowed Ontario's exception for public accounting, the Council was obliged to revise certain of its Standards. Those revisions, which are mostly concentrated in an expanded Section 7 of the Council Standards, and which became effective from July 11, 2012 upon ministerial approval, require the granting of Ontario public accounting licences to any member of an Authorized Designated Body who has been admitted to membership via an affiliated provincial accounting body and who is authorized by that affiliated body to practise public accounting.

What this means in essence is that the Ontario Authorized Designated Bodies can no longer take steps to see to it that such extra-provincial applicants meet the Council Standards that continue to apply for applicants who qualify in accordance with the Ontario public accounting licensing process. As is also emphasized below, this consequence has serious implications for the future of strong public accounting standards in Ontario and brings into question the Council's ability to protect the consumer of Ontario public accounting services.

Amendment to Council Standards for Mobility Within Ontario

At the same time that the above-described AIT-related revisions to Council Standards were effected, another change was introduced that facilitated the movement of licensed public accountants across Ontario Authorized Designated Bodies. Under a new Section 7C, a person (or a professional corporation) that is licensed by a given Ontario Authorized Designated Body is allowed to designate another such Ontario body as its applicable licensing body.

As noted earlier, all Council Standards, revised and up-to-date, are available on the Council website.

The Council in a Post-AIT-Decision Environment

The purpose of the Council, as mandated by its governing legislation, is *"to ensure that public accounting in Ontario is practised in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services"*.

In this regard, the Council has been successful in managing a multi-year process through which the three Ontario accounting bodies have now been authorized to issue public accounting licences in conformity with a set of substantially equivalent public accounting standards that are of demonstrably high quality. However, given the AIT decision the Council can no longer provide assurance that all public accounting practitioners entitled to be licensed in Ontario will measure up to these standards. The number of public accountants in Ontario that, availing themselves of the AIT provision, have qualified outside the Council framework regarding education, examination and practical experience, is to date relatively small (some 22 as of December 11, 2012). However, this quantum is bound to grow, thereby posing with increasing sharpness fundamental questions regarding the Council's role going forward and, more importantly, the appropriate regulatory framework for ensuring strong public accounting in the Province. While these questions cannot be settled through the Council, it has been working to see to it that they are clearly put to government and the three Ontario accounting bodies.

In this way, the Council is doing what it can to promote an appropriate dialogue with Queen's Park and the accounting bodies regarding a constructive way forward for high quality public accounting in Ontario. At the same time, pending a resolution of these questions, it is continuing to fulfill its responsibilities under its legislation.

In this latter regard, with all three bodies now authorized to issue licences the Council has been able to turn its attention more fully to another legislatively mandated aspect of Council Standard development – namely, *"raising the standards, as required"*. Work on this mandate, which calls for a review of Council Standards in the light of domestic and international best practice, and into which the three Ontario bodies are contributing resources, has begun and will be continuing into 2013.

Other Developments Likely to Impact the Council

Finally in this report on activities, mention should be made of two developments that have been unfolding in the past year, and which the Council has needed to keep under close observation for further likely action on its part.

The first such development has been the ongoing unification discussions and negotiations among some Canadian accounting bodies, together with related decisions of varying kinds among provincial affiliates of the Canadian bodies. This process appears to have been more drawn-out and complex than the proponents originally anticipated. However, it continues on and, other things being equal, will eventually have an impact on the status of some or all the existing Ontario bodies in relation to the Council.

Second, with the passage by the Quebec National Assembly in May 2012 of the *Chartered Professional Accountants Act*, a new provincial accounting body, the Quebec CPA Order, has been established. This new body unifies the provincial CA, CGA and CMA Orders under the new CPA Quebec banner. The Council, in consultation with officials of the Ministry of the Attorney General of Ontario and the three authorized Ontario accounting bodies established procedures providing for appropriate mobility in regard to public accounting for members of this new Quebec body. A draft of the amended Council Standards has been submitted to the Minister and, as at the date of this Annual Report, is awaiting his approval.

Complaints

Prosecutions

The Council is responsible for maintaining confidence in public accounting through appropriate prosecution of offences under the *Public Accounting Act, 2004*.

In this respect, the Council receives complaints about individuals who may be providing public accounting services without a licence. These complaints are investigated and followed up individually for action. The complaints have evolved over the past few years from those relating primarily to non-licensed individuals advertising their services under captions for public accounting to ones concerning non-licensed individuals issuing audit or review engagement reports in situations where it can be reasonably expected that there will be third party reliance on these reports. The majority of these situations are dealt with by having the individual sign a voluntary undertaking to cease the offending activity.

In the case where it is determined that a voluntary undertaking would be insufficient deterrent for the individual to cease the offending activity, the Council may initiate a private prosecution under the *Provincial Offences Act*.

The complaints activities for the past three fiscal years are summarized as follows:

	2012	2011	2010
Complaints outstanding at beginning of year	4	2	-
New complaints received during the year	1	6	6
Complaints resolved through voluntary undertakings	2	4	4
Complaint resolved through private prosecution	1	-	-
Complaints under investigation or before the courts	2	4	2

The successful prosecution was of an unlicensed individual for practising as a public accountant. He was fined $7,500 ($2,500 for each count) plus a victim surcharge of $1,875 and given a two-year term of probation.

Two prosecutions remain in process.

Information regarding convictions is published on the Council's website under *Statutory Offences*.

Section 22 Reviews

A member of the public who is not satisfied with the manner in which a complaint about the conduct of a Licensed Public Accountant was handled by the licensing Authorized Designated Body, may under *section 22* of the *Public Accounting Act, 2004* request the Council to review the licensing body's handling of the complaint. The member of the public must first have made a complaint to the licensing body and exhausted the internal procedures of the licensing body for the handling of the complaint, including the licensing body's independent review mechanisms.

The Council's ability to address a request for a review made pursuant to *section 22* is limited to deciding whether to recommend that the licensing body investigate the complaint more fully. The Council's ability to review does not extend to decisions of the licensing body's disciplinary or appeal committees.

During 2012, the Council received three requests for a *section 22* review. In addition the disposition of one request for a review was carried over from the previous year.

Following the appropriate reviews and discussion, the Council determined not to refer two of the requests for a review back to the licensing body to be investigated more fully, one was withdrawn during the year and the investigation of the fourth is still in process.

GOVERNANCE

Composition of the Council

The Council is comprised of 17 Members:

- Nine Members appointed by the Lieutenant Governor in Council
- Two Members appointed by the Certified General Accountants Association of Ontario
- Two Members appointed by the Certified Management Accountants of Ontario
- Four Members appointed by the Institute of Chartered Accountants of Ontario.

Each Member of the Council holds office for a term of up to three years from the date of his or her appointment and may be reappointed for up to four additional terms.

The Chair and Vice-Chair of the Council are appointed by the Lieutenant Governor in Council and hold office for two years from the date of appointment or until their successor is appointed. The Chair and Vice-Chair may be reappointed for an additional term. The Vice-Chair may be appointed Chair for up to two terms in addition to any terms the person may have served as Vice-Chair.

Appointment of the Chair

On December 22, 2009, John Crow was appointed as Chair of the Council for a two-year term expiring on December 21, 2011 and on December 13, 2011, Mr. Crow was reappointed as Chair by the Lieutenant Governor in Council for an additional term beginning December 22, 2011. On November 5, 2008, Maureen Sabia was appointed as Vice-Chair of the Council for a two year term and on November 1, 2010, she was reappointed as Vice-Chair by the Lieutenant Governor in Council for an additional term expiring on October 31, 2012. As at the date of this Annual Report Miss Sabia's successor has not been appointed. As such, in accordance with the provisions of subsection 26 (2) of the Act, she continues to serve as Vice-Chair of the Council until her successor is appointed.

Officers

The Council's Officers are:
Chair: John Crow
Vice-Chair: Maureen Sabia
Chief Executive Officer: Keith Bowman
Secretary: John Crow

Performance Reviews

The Council has established a performance review process for the Council. Performance reviews of the Council and its committees and Council Members are conducted every two years. The most recent performance reviews of the Council and its committees were in process to be completed for the fiscal year ended in 2012. Performance reviews of the Chair and the Chief Executive Officer are conducted annually.

Compensation Framework

The compensation of the Members of the Council, including the Chair and Vice-Chair, is prescribed by the Lieutenant Governor in Council in Regulations made under the *Public Accounting Act, 2004*.

Members of the Council, with the exception of the Chair and the Vice-Chair, are compensated in accordance with the following framework:

- Meeting Attendance Fee: $700 per meeting ($350 for meetings under three hours)
- Preparation Time: $700 per meeting ($350 for meetings under three hours)
- Travel Time: $100 per hour*

* Payable to Members of the Council (other than the Chair) who are required to travel beyond 40 kilometers (one-way) to attend a meeting.

The compensation of the Chair is $166,666 per annum.

The compensation of the Vice-Chair is $1,000 per meeting attended ($500 for meetings under three hours) and $1,000 for preparation time per meeting ($500 for meetings under three hours).

All Council Members, including the Chair and the Vice-Chair, are reimbursed for related travel and out-of-pocket expenses.

Succession Planning

The Council is not empowered under the *Public Accounting Act, 2004* to appoint its directors (who are referred to in the Act as "Council Members") or its Chair or Vice-Chair.

As noted above, the Act provides that of the 17 Council Members prescribed by the Act, two are to be appointed by the CGAO, two are to be appointed by the CMAO, four are to be appointed by the ICAO, and nine are to be appointed by the Lieutenant Governor in Council. These entities are collectively referred to as the "appointing bodies".

In an effort to ensure that Council Members are experienced and qualified and to assist the appointing bodies, the Council, with the input of the Designated Bodies, has developed a Council Member Profile and a template to be used to assess the competency and diversity of the individual Council Members and of potential appointees to the Council. The information that is gathered is used to prepare a Competency and Diversity Matrix to assess the overall strength of the skills and diversity of the Council Members and to identify any gaps for the purpose of assisting the appointing bodies in their selection of persons to replace retiring Council Members and to fill any vacancies. The Council has requested the appointing bodies to use these tools in determining whether their respective appointees are experienced and qualified to serve as Council Members. In addition, the Council takes an active role in assessing the qualifications of the nominees for appointment to the Council and Council also communicates its views to the appointing bodies.

COUNCIL MEMBERS

Members Appointed by the Lieutenant Governor in Council

Name	Member of Council Since	Term Expires
James C. Baillie Of Counsel, Torys LLP Initial Chair of the Audit and Assurance Oversight Council (Toronto, Ontario)	**December 3, 2008**	**December 2, 2013**
John Crow Corporate Director Former Governor of the Bank of Canada Chair of the Council and Secretary (Toronto, Ontario)	**November 1, 2005**	**December 21, 2012**
Aldo Di Felice President Telelatino Network Inc. (Toronto, Ontario)	**February 11, 2009**	**February 10, 2014**
Lili-Ann Foster President and CEO of Renaud Foster Management Consultants (Ottawa, Ontario)	**October 25, 2006**	**October 24, 2014**
Shoba Khetrapal Corporate Director (Toronto, Ontario)	**December 3, 2008**	**December 2, 2013**
Jacqueline Orange Corporate Director (Toronto, Ontario)	**July 8, 2010**	**July 7, 2015**
Maureen Sabia Chairman, Canadian Tire Corporation Limited Vice-Chair of the Council (Toronto, Ontario)	**November 1, 2005**	**October 31, 2012**
Ian Shewan Partner, Lerners LLP (London, Ontario)	**July 8, 2010**	**July 7, 2015**
Larry Wynant Professor of Finance Richard Ivey School of Business, University of Western Ontario (London, Ontario)	**April 18, 2011**	**April 17, 2013**

Members Appointed by the Certified General Accountants Association of Ontario

Name	Member of Council Since	Term Expires
Ron Colucci, FCGA Operates an accounting, income tax and business advisory practice (Mississauga, Ontario)	**November 1, 2005**	**October 31, 2014**
John Nazzarro, CGA[1] Partner in the Firm of Nazzarro Clark, Certified General Accountants (Concord, Ontario)	**November 1, 2008**	**October 31, 2012**

Members Appointed by the Certified Management Accountants of Ontario

Name	Member of Council Since	Term Expires
Nigel Jacobs, FCMA[2] Chief Executive Officer of Taylor Leibow LLP, Chartered Accountants (Hamilton, Ontario)	**November 1, 2008**	**October 31, 2012**
Howard E. Johnson, MBA, FCA, FCMA, CBV, CPA, CFA, ASA, CF, C.Dir Managing Director Campbell Valuation Partners Limited (Toronto, Ontario)	**August 24, 2009**	**October 31, 2013**

Members Appointed by the Institute of Chartered Accountants of Ontario

Name	Member of Council Since	Term Expires
Colleen E. Gibb, FCA, CFE Partner in the Firm of Gibb Widdis, Chartered Accountants (Ancaster, Ontario)	**November 1, 2005**	**October 31, 2013**
Ralph T. Neville, FCA Consultant Formerly Senior Tax Partner with BDO Dunwoody LLP (Oakville, Ontario)	**November 1, 2005**	**October 31, 2013**
Erik Peters, FCA Retired Auditor-General of Ontario (Ottawa, Ontario)	**November 1, 2005**	**October 31, 2013**
Michael Walke, CA Audit and Assurance Partner, PricewaterhouseCoopers LLP (Toronto, Ontario)	**November 1, 2005**	**October 31, 2013**

[1] Effective November 1, 2012 John Nazzarro was replaced by Dawn McGeachy, BAccS, FCUIC, ACUIC, FCGA, LPA

[2] Effective November 1, 2012, Nigel Jacobs was replaced by Jack R. Bowerman, CA, CMA, LPA

COUNCIL COMMITTEES

Audit Committee

Members: James C. Baillie (Chair)
Shoba Khetrapal
Jacqueline Orange
Erik Peters

The Audit Committee's responsibilities include the review of the Council's financial statements, the Council's risk management processes, systems of internal controls and compliance with applicable laws and regulations. The Audit Committee consists of at least three Members. The Chair, Vice-Chair and the Secretary of the Council may not serve as members of the Audit Committee. The Chair of the Audit Committee is appointed by the Council.

Governance Committee

Members: Lili-Ann Foster (Chair)
Ron Colucci
John Crow
Nigel Jacobs
Maureen Sabia
Michael Walke

The Governance Committee's responsibilities include recommendations for committee structure and Council membership and overseeing the process for performance assessment of the Council and its committees, Council Members, the Chair and the Chief Executive Officer.

The Governance Committee consists of at least three Members appointed by the Council. The Council has established a practice of appointing to the Governance Committee a nominee of each of the CGAO, CMAO and the ICAO as well as three of the Members appointed by the Lieutenant Governor in Council. The Chair of the Governance Committee is appointed by the Council.

Council and Committee Meetings

The following is the number of Council and Committee meetings held during the 12 months ended October 31, 2012:

Council	5
Audit Committee	2
Governance Committee	1

Attendance at Council and Committee Meetings

The following is a summary of individual Member attendance at Council and Committee Meetings held during the 12 months ended October 31, 2012:

Member	Council Meetings Attended	Committee Meetings Attended
James C. Baillie[1]	4 of 5	2 of 2
Ron Colucci[2]	5 of 5	1 of 1
John Crow[2,3]	5 of 5	2 of 2 and 1 of 1
Aldo Di Felice	5 of 5	-
Lili-Ann Foster[2]	4 of 5	1 of 1
Colleen Gibb	5 of 5	-
Nigel Jacobs[2]	5 of 5	1 of 1
Howard E. Johnson	3 of 5	-
Shoba Khetrapal[1]	5 of 5	1 of 2
John Nazzarro	5 of 5	-
Ralph Neville	4 of 5	-
Jacqueline Orange[1]	4 of 5	1 of 2
Erik Peters[1]	4 of 5	2 of 2
Maureen Sabia[2]	4 of 5	1 of 1
Ian Shewan	5 of 5	-
Michael Walke[2]	4 of 5	1 of 1
Larry Wynant	4 of 5	-

1 Member of Audit Committee
2 Member of Governance Committee
3 The Chair of the Council attends each Committee meeting

MANAGEMENT DISCUSSION AND ANALYSIS

The following information provides a summary review of the operations and results of the Council for the year ended October 31, 2012. It is intended to assist readers in understanding the operations of the Council. This should be read along with the accompanying financial statements.

The Council is a corporation without share capital that was continued under the *Public Accounting Act, 2004*. The Act was proclaimed into force on November 1, 2005. As a not-for-profit corporation, the Council is exempt from income taxes.

Operations

The operating costs of the Council are funded by the three Designated Bodies. Designated Body assessment fees are set based on the estimated operating expenses of the Council adjusted for an amount to continue building the net assets to approximately 50% of estimated annual operating expenses. These assessment fees were set at $1,250,000 in 2012 (same as in 2011).

In addition to the annual assessment fees, Council standards assessments costs of $558,548 ($1,155,332 in 2011) were incurred in the process of determining whether the standards of the respective Designated Bodies are substantially equivalent to those of the Council. The decline in these costs from the previous year resulted from the CMAO being approved as an Authorized Designated Body early in January 2012. These costs also include Designated Body assessments to determine if the operations of the CGAO and ICAO were compliant with the standards of the Council for governance of their respective licensed public accountants. All of these costs are billed to and recoverable from the Designated Bodies.

The other source of revenue is interest income earned from investments amounting to $22,375 ($14,199 in 2011).

The main expenses relating to the other operations of the Council are salaries and benefits totalling $542,711 ($551,419 in 2011), and Council fees, travel and meetings expenses totalling $89,406 ($104,439 in 2011).

Non-recoverable standards costs increased very significantly, to $343,545 from $30,958 in 2011, primarily as a consequence of the decision of the AIT Labour Mobility Panel that disallowed Ontario's exception for public accounting and caused the Council to revise certain of its Standards. Costs for legal and other costs of hearings and prosecutions decreased to $144,894 from $176,454 in 2011 as a result of lower prosecution activities in 2012. Legal advisory costs decreased to $74,609 from $113,462 in 2011. Other costs incurred for rent, and general administrative matters were similar to 2011. Total expenses, excluding the recoverable standards assessment expenses, increased to $1,423,699 from $1,242,940 in 2011.

As noted on page 7 of this Annual Report, there have arisen risks to the Council's mandate and operations as a result of the AIT decision on the Ontario exception for public accounting. While these risks are only beginning to develop and are difficult to quantify, they will need careful monitoring. The office of the Attorney General has been made aware of these risks.

Cash Flow and Liquidity

The Council's cash flow from operating activities decreased by $243,841 (increased by $150,564 in 2011). This decrease comprises the loss in the Council operations, a decrease in accounts payable and a decrease in the amounts due to Designated Bodies. As at year-end, the Council had $1,239,170 ($1,483,012 in 2011) in cash and investments. The Council's established policy is to achieve minimum net assets approximating 50% of estimated annual operating expenses. As at October 31 the net assets amounted to $836,702.

During 2012, the Council invested its available funds in interest bearing debt obligations that meet certain eligibility criteria of, or are guaranteed by, a Province of Canada or a Canadian chartered bank.

Financial Outlook

The Council has approved an operating budget, excluding standards assessments, of $1,400,000 for the 2013 fiscal year, an increase of $150,000 over the operating budget that was set for the 2012 fiscal year. It is expected that the recoverable costs for 2013 will again decrease now that the three Designated Bodies are authorized. The majority of expenses are forecast to be similar to those actually incurred in 2012. One activity that will attract increased costs for 2013 is the process to update the Council Standards and Handbook. The costs for hearings and prosecutions will vary according to the number of reported complaints from the public.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The annual financial statements and all financial and other information contained in this Annual Report are the responsibility of the management of The Public Accountants Council for the Province of Ontario. Management has prepared the financial statements in accordance with Canadian Accounting Standards for not-for-profit organizations, applying best estimates and judgments based on currently available information. The Council early adopted the not-for-profit standards for the current year. There were no changes to net assets required as a result of adopting the new not-for-profit standards. The significant accounting policies are described in note 2 to the financial statements.

Financial information contained in this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity and reliability of financial information, and has established systems of internal procedural and accounting controls designed to achieve this. In addition, these systems also reasonably ensure that assets are safeguarded from loss or unauthorized use.

The Members of the Council are responsible for ensuring that management fulfills its responsibilities including those for financial reporting and internal control. The Council has created an Audit Committee to help it with these responsibilities. The Audit Committee met with the auditors, both with and without management present, to review

the activities of each, as well as to review the financial statements. Tinkham & Associates LLP have been appointed by the Council as auditors to express their opinion on the fair presentation of the financial statements.

They have had full and unrestricted access to the Audit Committee and management to discuss matters pertaining to their audit.

The Audit Committee reviews the auditor's performance annually and makes a recommendation to the Members of the Council with respect to their reappointment for the coming year.

Signed: "Keith Bowman"
Keith Bowman
Chief Executive Officer

Signed: "John Crow"
John Crow
Chair

Financial statements of

THE PUBLIC ACCOUNTANTS COUNCIL FOR THE PROVINCE OF ONTARIO

October 31, 2012

Tinkham & Associates LLP
CHARTERED ACCOUNTANTS

D C Tinkham, B Comm, CMC, FCA
Associates
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INDEPENDENT AUDITOR'S REPORT

To The Public Accountants Council for the Province of Ontario

We have audited the accompanying financial statements of The Public Accountants Council for the Province of Ontario, which comprise the balance sheet as at October 31, 2012 and the statement of operations and changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Public Accountants Council for the Province of Ontario as at October 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

TORONTO, Ontario

December 11, 2012

Tinkham & Associates LLP
CHARTERED ACCOUNTANTS

Licensed Public Accountants

THE PUBLIC ACCOUNTANTS COUNCIL FOR THE PROVINCE OF ONTARIO
Balance Sheet

As at October 31	2012	2011
Assets		
Current assets		
Cash	**$ 383,868**	$ 700,337
Prepaid expenses	**7,424**	7,424
	391,292	707,761
Investments (note 3)	**855,302**	782,675
Capital assets (note 4)	**24,136**	40,084
	$ 1,270,730	$ 1,530,520
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	**$ 173,001**	$ 242,339
Due to Designated Bodies	**261,027**	300,155
	434,028	542,494
Net Assets		
Net assets	**836,702**	988,026
	$ 1,270,730	$ 1,530,520

Commitment (note 6)

See accompanying notes to financial statements.

On behalf of the Council:

Signed "John Crow"

John Crow

Signed "James C. Baillie"

James C. Baillie

See accompanying notes to financial statements.

THE PUBLIC ACCOUNTANTS COUNCIL FOR THE PROVINCE OF ONTARIO
Statement of Operations and Changes in Net Assets

Year ended October 31	2012	2011
Revenues		
Designated Bodies assessment fees	**$ 1,250,000**	$ 1,250,000
Recovery of Standards assessment expenses	**558,548**	1,155,332
Investment income	**22,375**	14,199
	1,830,923	2,419,531
Expenses		
Standards assessments	**558,548**	1,155,332
Salaries and benefits	**542,711**	551,419
Standards	**343,545**	30,958
Legal and other costs of hearings and prosecutions	**144,894**	176,454
Rent	**140,882**	137,308
Council fees, travel and meetings	**89,406**	104,439
Legal advisory	**74,609**	113,462
Office	**38,872**	51,310
Amortization	**15,948**	51,869
Insurance	**12,727**	12,725
Audit	**10,500**	12,996
Consultants	**9,605**	-
	1,982,247	2,398,272
Excess of revenues over expenses (expenses over revenues) for the year	**(151,324)**	21,259
Net assets, beginning of year	**988,026**	966,767
Net assets, end of year	**$ 836,702**	**$ 988,026**

See accompanying notes to financial statements.

THE PUBLIC ACCOUNTANTS COUNCIL FOR THE PROVINCE OF ONTARIO
Statement of Cash Flows

Year ended October 31	2012	2011
Cash provided by (used for):		
Operating activities		
Excess of revenues over expenses (expenses over revenues) for the year	**$ (151,324)**	$ 21,259
Adjustments for items which do not affect cash		
Amortization	**15,948**	51,869
	(135,376)	73,128
Changes in non-cash working capital balances		
Due to Designated Bodies	**(39,127)**	81,814
Net decrease in prepaid expenses	**-**	2,163
Net decrease in accounts payable	**(69,338)**	(6,541)
	(108,465)	77,436
Net cash provided (used) for operating activities	**(243,841)**	150,564
Investing activities		
Net decrease (increase) in investments	**(72,628)**	489,787
Purchases of capital assets	**-**	(9,800)
	(72,628)	479,987
Increase (decrease) in cash	**(316,469)**	630,551
Cash, beginning of year	**700,337**	69,786
Cash, end of year	**$ 383,868**	$ 700,337

See accompanying notes to financial statements.

1 Purpose of the organization

The Public Accountants Council for the Province of Ontario (the Council) is a corporation without share capital that was continued under the Public Accounting Act, 2004 (the Act). The Act was proclaimed into force on November 1, 2005.The Council is exempt from income taxes.

The purpose of the Council is to ensure that public accounting in Ontario is practiced in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services. The Council is responsible for:

Developing and maintaining the standards that a Designated Body must meet in order to be authorized to license and govern the activities of its members as public accountants;

Determining which Designated Body meets the standards, when it meets them and whether it continues to meet the standards after it is authorized to license and govern the activities of its members as public accountants;

Overseeing the Designated Bodies in their capacity to license and to govern the activities of their members as public accountants; and

Maintaining public confidence in public accounting through the appropriate prosecution of offences under the Public Accounting Act, 2004.

The Designated Bodies are the Certified General Accountants of Ontario, the Certified Management Accountants of Ontario, and the Institute of Chartered Accountants of Ontario. The Council's operations are funded by the Designated Bodies.

2 Significant Accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

(a) Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets using the straight-line basis as follows:

Furniture, equipment and systems	- 10% and 25% annually
Leasehold improvements	- over the term of the initial lease

(b) Investments

Management has elected to value all investments at fair value, which is based on quoted market values.

(c) Revenue recognition

In accordance with section 33 of the Act, the Council prescribes the fees that are to be paid by the Designated Bodies to fund the operations of the Council. These fees are based on the Council's annual operating expenditures. The prescribed fees are recognized as revenue in the fiscal year to which the expenses relate.

The Council has retained independent consultants to assist it in determining whether the respective standards of the Designated Bodies are substantially equivalent to the Council's standards. The related recoveries of costs incurred are recognized as revenue when approved as recoverable.

2 Accounting policies continued

(d) Financial instruments

The Council initially measures its financial assets and liabilities at fair value. Council subsequently measures all its financial assets and financial liabilities at amortized cost, except for its investments in government bonds that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and due to Designated Bodies.

Council recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(c) Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3 Investments

	2012	2011
Ontario savings bond, interest at 0.75% initially and increasing to 4.50% due June 21, 2014	**$ 506,319**	$ 504,514
Ontario savings bond, interest at 1.25% initially and increasing to 3.75% due June 21, 2016	**229,033**	226,017
Ontario savings bond, variable interest rate, currently at 1.25% (2011 - 1.30%) due June 21, 2016	**52,135**	52,144
Ontario savings bond, interest at 1.25% initially and increasing to 2.25% due June 21, 2017	**67,815**	-
	$ 855,302	$ 782,675

The Ontario Savings Bonds can be sold at market value at any time. Council invests in interest bearing debt obligations of or guaranteed by the Government of Canada, and of or guaranteed by a Province of Canada or by a Canadian chartered bank that meet certain specified eligibility criteria. All investments are readily convertible into known amounts of cash. Council does not purchase investments for speculative purposes.

4 Capital assets

	2012 Cost	2012 Accumulated Amortization	2011 Cost	2011 Accumulated Amortization
Furniture, equipment and systems	**$ 178,534**	**$ 154,398**	$ 178,534	$ 142,356
Leasehold improvements	**117,172**	**117,172**	117,172	113,266
	$ 295,706	**$ 271,570**	$ 295,706	$ 255,622
Net book value		**$ 24,136**		$ 40,084

5 Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is Employer Health Tax payable of $9,552 (2011 - $7,760) and payroll withholding taxes payable of $13,758 (2011 - Nil).

6 Lease commitment

Council has entered into a lease agreement for office space that extends until December 31, 2016. The minimum lease commitment plus the proportionate share of realty taxes and operating expenses for 2013 is estimated to be $148,000.

Minimum annual lease payments, excluding the Council's share of realty taxes and operating expenses required in each of the next five fiscal years are as follows:

2013	$ 50,217
2014	50,869
2015	50,869
2016	54,130
2017	9,130

7 Financial instruments

The Public Accountants Council for the Province of Ontario is exposed to various risks through its financial instruments. The following analysis provides a measure of the Council's risk exposure and concentrations. The financial instruments and the nature of the risks to which they may be subject are as follows:

	Risks				
			Market risk		
Financial instrument	Credit	Liquidity	Currency	Interest rate	Other price
Cash	X			X	
Investments	X			X	
Accounts payable and accrued liabilities		X			
Due to Designated Bodies		X			

7 Financial instruments continued

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Council is exposed to credit risk through its cash and investments. This risk is minimized substantially by ensuring funds are invested in financial obligations of governments and major financial institutions. The Council's investment policy restricts investments to Government and bank issued investments, which limits risk to market price fluctuations.

Liquidity risk

Liquidity risk is the risk that Council will not be able to meet a demand for cash or fund its obligations as they come due. The Council meets its liquidity requirements by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

The Council does not have any transactions in foreign currencies and is therefore not subject to currency risk.

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The exposure of the Council to interest rate risk arises from its interest bearing investments and cash. Fluctuations in market rates of interest on cash do not have a significant impact on the Council's operations. The Council manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. The primary objective of the Council with respect to its fixed income investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return giving consideration to risk.

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments in the market. The Council is not exposed to significant other price risk.

Changes in risk

There have been no changes in risk exposures from the prior year.

CONTACT INFORMATION

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